

# California Debt Limit Allocation Committee

Presentation to:

Tools to Revitalize California  
Communities

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# Introduction

- Who are we and what do we do?
- Overview of CDLAC Process
- Rental Project Program
- Extra Credit Program

# Who are we and what do we do?

- When you see  
California Debt Limit Allocation  
Committee  
think  
California Tax-Exempt Bond  
Allocation Committee

# What's so great about tax-exempt bonds?

- Tax-exempt bonds provide low (think *really* low) interest rate financing, and the ability to receive valuable equity, to finance affordable housing and other types of projects in your community.

# Overview of Process

- California's Tax-Exempt Private Activity Bond Volume Cap
- Determination of the State Ceiling, Competitive Rounds and Program Pool Amounts
- Applications and Credit Enhancement
- Allocation Systems for Program Pools

# California' Private Activity Bond Volume Cap

- The bond volume cap is the LIMIT on the dollar amount of tax-exempt private activity bonds that can be issued in each state.
- CDLAC was created in 1985 by Governor proclamation.
- **Members: State Treasurer, Chair, Governor, Controller, Three Advisory Members.**

# California's Private Activity Bond Volume Cap

- The Federal rules = Section 26 of the IRS Code.
- The State rules = The Procedures of the California Debt Limit Allocation Committee.
- The Procedures were created with public input and outline all priorities, programs and requirements relating to the allocation of tax-exempt private activity bond allocation.

# California's Private Activity Bond Volume Cap

- The Committee is fee-based and has no funding from the state budget.



# Determination of the State Ceiling, Competitive Rounds and Program Pool Amounts

- Annual state ceiling (limit) based on population (35,484,453) x \$80. This year's ceiling is \$2.83 billion.
- Project or program must be private activity of public purpose.
- Each January the Committee announces the ceiling, the amount of bond authority in each program pool and the schedule for application cycles.

# Applications and Credit Enhancement

- Applications must be from city, county, joint power authority or statewide issuer.
- Issuer is a 'conduit' for the project. No liability to public entity.
- Each project is credit enhanced by major financial institution (with the exception of CalHFA).

# Program Pools

- Residential Rental Project Pool  
Rural, Mixed Income, General
- Single Family Program Pool  
MRB Program and MCC Program
- Extra Credit Program Pool
- Industrial Development Bond Pool  
Main IDB Program, Energy Finance Program, Small Business Program, Equipment Only Purchase Program
- Exempt Facility Project Pool
- Student Loan Program Pool

# Residential Rental Project Pool

- Statutory emphasis: to promote housing for lower income families and individuals and to preserve and rehabilitate existing governmental assisted housing for lower income families and individuals.
- The lion's share of the state ceiling: 54.7% or \$1.5 billion for Rental Projects.
- Sub-Categories:

General	\$	1 billion
Mixed Income	\$	390 million
Rural	\$	160 million

# Residential Rental Projects

## ■ Minimum Criteria

- ✓ Site control
- ✓ Local Zoning Approvals
- ✓ Rent restrictions
- ✓ Restricted rents must be 10% below market rents
- ✓ Minimum construction cost of \$7,500/unit for acquisition/rehab.

# Residential Rental Projects

- **Evaluation Criteria - Points are awarded for the following:**
  - ✓ Federally assisted at-risk projects
  - ✓ Exceeding minimum income and rent restrictions
  - ✓ Use of gross rents (rents that include utility allowance)
  - ✓ Exceeding minimum term of restrictions

# Residential Rental Projects

- ✓ Large family units
- ✓ Leveraging (public vs. taxable)
- ✓ Location in a revitalization area
- ✓ Site & service amenities
- ✓ Energy efficiency
- ✓ New construction

# Residential Rental Projects

- Projects that receive an award of bond authority have the right to apply for non-competitive 4% tax credits.
- In order to receive the 4% credit, a project must meet the 50% test.
- The 50% test requires that at least half of the aggregate basis plus land (approximately the entire project cost) be financed with tax-exempt bonds.



# Residential Rental Project Pool

- An award of bond authority results in the recording of a regulatory agreement which restricts rents to specified income levels for up to 55 years.

# Residential Rental Project Pool

- Applicants are Bond Issuers.
- Project Sponsors are for profit and non-profit developers.
- Trend 2004: Impact of construction cost increases, Mixed Income Pool reduced demand.
- New Open Application System

# Extra Credit Teacher Program

- A single family program designed to address the connection between the lack of credentialed teachers and high priority schools.
- The program assists school districts to recruit and retain qualified credentialed school staff in high priority schools.

# Extra Credit Teacher Program

- In addition to the below-market interest rate loan or MCC, the teacher receives substantial homeownership assistance for agreeing to work in a low performing school for three years.
- The Extra Credit Teacher Program is administered on a statewide basis by CalHFA: [www.calhfa.ca.gov](http://www.calhfa.ca.gov).

# Public Benefit Analysis For All Programs

- A Public Benefit Analysis is available for each program pool in each application round.
- These analyses are available, along with other important information and forms on our website:  
[www.treasurer.ca.gov/cdlac](http://www.treasurer.ca.gov/cdlac).

# Typical Bond Structures, or How Does a Bond Deal Work?

- Rental Projects:
  - ◆ The public entity issues the bonds, the bonds are either underwritten, credit enhanced and rated through a rating agency, or are unrated and privately placed with a major financial institution.
  - ◆ The proceeds from the sale of bonds are used to back a loan with a lender. The lender disburses loan proceeds for the development of the project.
  - ◆ The project makes loan payments to the lender, through the trustee, back to the bond holders.

# Conclusion

- The tax-exempt bonds are an important vehicle for entities to borrow at low cost in order to provide more affordable housing in communities across California.

# California Debt Limit Allocation Committee

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In 2004 the Committee will award over \$2 billion in bond authority to affordable housing projects and programs across the state.